

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING
(PROPOSAL SEVEN)

Docket No. RM2015-16

REPLY COMMENTS OF THE UNITED STATES POSTAL SERVICE
REGARDING PROPOSAL SEVEN
(October 16, 2015)

Order No. 2654 (August 11, 2015) set the dates of September 25, 2015 for Initial Comments on Proposal Seven, and October 16, 2015 for Reply Comments. Initial comments were submitted on September 25, 2015 by the Public Representative and by Pitney Bowes. The Postal Service hereby replies to both sets of comments.

The Public Representative supports Proposal Seven, but does identify one small computational error. PR Comments at 2. The Postal Service agrees with the observation that the relevant formula in the Delivery model could be modified to correct the slight discrepancy noted by the Public Representative on page 6, but nonetheless maintains that, in the context of the levels of approximation inherent in the exercise presented, rounding the estimate of the total proportion of flats not finalized on FSS equipment to 25 percent is still reasonable.

The comments of Pitney Bowes state no opinion on the overall appropriateness of the proposed methodological changes to the Standard Mail Flats model. Rather, those comments seek assurances that the specific methodological change proposed for the treatment of allied and platform costs will only be applicable to FSS flats, and will not be applied to any other shape or class of mail.

Pitney Bowes takes no position as to whether this change is appropriate in the FSS environment; however, because the proposal is inconsistent with the

Commission's established methodology and because the Postal Service has not provided sufficient evidence or analysis in support of its approach, the Commission should only adopt the change requested by the Postal Service if it makes clear that its approval is limited to the FSS environment, and that it will adhere to the established methodology for all other workshare modeled costs.

PB Comments at 1.

The Postal Service, however, strongly disagrees with the assertion that it has not provided sufficient support for this aspect of its proposal. In this instance, the reason that the Postal Service proposes to deviate from the Commission's established general methodology for distributing allied and support cost is that there is a compelling need to do so in order to appropriately present the costs of and costs avoided by mail in the new category of FSS flats. As explained by the Postal Service in the initial filing:

Like FSS pieces, the majority of 5-Digit pieces are submitted [in] levels of containers where the resident bundles require a single bundle sort prior to piece distribution (SCF, 3-Digit, FSS Facility). Like FSS pieces, 5-Digit pieces require a single piece distribution operation prior to being distributed to the carrier. However due to the lower productivity and higher piggy-back factor of the FSS, the direct costs attributed to FSS pieces are significantly higher than those attributed to 5-Digit pieces. Applying the CRA adjustment factor as is done in current methodology will distort measured cost avoidances by over-distributing non-modeled costs to FSS pieces.

Proposal Seven Petition (August 5, 2015), Section One at 12. It is not the intention of the Postal Service to seek changes to established Commission methodology except when changes to the operating environment or the introduction of new mail categories, as happened with the introduction of FSS processing, presents a compelling reason to diverge from the established methodology in order to supply the Commission with accurate measures of avoided costs. The Postal Service is not advocating any global change in the Commission's general approach to these types of costs, but has amply supported its specific proposal in the context of the specific circumstances applicable to

this type of mail. The Public Representative, for example, recognizes the sufficiency of the analysis provided, and therefore affirmatively supports this aspect of the proposal.

PR Comments at 4.

The concerns raised by the Public Representative and Pitney Bowes provide no sufficient basis to alter the proposal submitted by the Postal Service. Therefore, the Postal Service respectfully urges the Commission to approve Proposal Seven.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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